

THE PPC ACCOUNTING AND AUDITING UPDATE

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Standard Setters Defer Standards in Response to COVID-19 Challenges



FASB

Deferred Effective Dates

To address challenges relating to the coronavirus pandemic, on April 21, 2020, the FASB issued a proposed one-year deferral for the effective dates of ASC 606, *Revenue from Contracts with Customers*, and ASC 842, *Leases*, for certain nonpublic companies and certain nonprofit organizations that have not already adopted them. Early adoption is still permitted.

The ASC 606 deferral applies to nonpublic franchisors, and the new effective date is for annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. The FASB is also adding a research project to its agenda relating to potential expedients to reduce implementation costs for franchisors.

The ASC 842 deferral changes the effective date by one year for private companies and private not for profits, to fiscal

years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. For public not-for-profits (issuers or conduit bond obligors of publicly traded securities) that have not yet issued financial statements, the effective date is deferred to fiscal years beginning after December 15, 2019, including interim periods within those years.

The FASB's proposed ASU has a 15-day comment period ending on May 6, 2020. We believe a final ASU will be issued soon after the comment period closes to officially delay these effective dates.

Lease Concessions

The FASB staff issued interpretative guidance on April 10, 2020, on accounting for lease concessions made as a result of the coronavirus pandemic. Economic challenges from COVID-19 are resulting in lessors providing lease concessions to their tenants in significant numbers.

The guidance is in the form of a Question and Answer document. In it, the FASB indicates lessors may elect whether to apply ASC 842 (or ASC 840) lease

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modification guidance for concessions they are granting to lessees. They can elect to account for concessions as though enforceable rights and obligations exist, without being required to analyze each lease contract to make this determination. The Q&a offers two methods of accounting for the concessions—

- increasing the lease receivables and payables as payments accrue and recognizing lease income and expense during the deferral period, or
- accounting for deferred payments as variable lease payments.

The election is available if the concessions do not result in a substantial increase in lessor rights or lessee obligations, which will be a matter of judgment. For example, the election is available if the total lease payments due under the modified lease are less than, or substantially the same as, those due under the original lease.

Under ASC 842, a lease modification is a change in the terms of a contract that result in a change in the scope of, or the consideration for, a lease. Under existing lease accounting guidance, if lessors grant concessions resulting in changes to lease payments not provided for in the original lease, those concessions are generally accounted for as lease modifications. A modification may be accounted for as a modified lease, with the lessee and lessor reconsidering the lease's classification and the measurement of the lease asset and liability, or as two leases—the original one and a new one. Concessions are not accounted for as lease modifications if the lease contract includes explicit or implicit enforceable rights and obligations when certain circumstances out of the control of the parties to the lease arise, and no changes are made to the lease.

The Q&a indicates that entities may choose to continue to apply existing modification guidance in accounting for lease concessions related to COVID-19. In addition, all such concessions are not required to be accounted for the same way, although ASC 842 and ASC 840 should be applied consistently to leases in similar circumstances and those that have similar characteristics. Both lessors and lessees should disclose any material lease concessions granted or received and how they were accounted for.

The FASB staff developed this Q&a in response to concerns and questions they have received, and they intend to issue additional guidance to address new implementation issues arising from COVID-19.

Practical Consideration:

The Q&a is available on the FASB's website at www.fasb.org/cs/Satellite?c=FASBContent_C&cid=1176174459740&pagename=FASB%2FFASBContent_C%2FGeneralContentDisplay.

Accounting Standards Board

The following Statements on Auditing Standards (SAS) issued in 2019 and 2020 have effective dates for audits of financial statements for periods ending on or after December 15, 2020:

- No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended.
- No. 135, *Omnibus Statement on Auditing Standards—2019*.
- No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as amended.
- No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*.
- No. 138, *Amendments to the Description of the Concept of Materiality*.
- No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*.
- No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*.

SAS Nos. 134, 136, 137, 139, and 140 do not permit early implementation.

Because of the auditing and accounting challenges related to COVID-19 smaller and midsize firms are facing, the ASB voted to defer the effective dates of SAS Nos. 134–140 from periods ending on or after December 15, 2020, to periods ending on or after December 15, 2021 (one year delay), and allow for early implementation.

Practical Consideration:

More information on this topic and other COVID-19 resources are available at checkpoint.riag.com and www.thomsonreuters.com.



The PPC Technology Update

by Roman H. Kepczyk, CPA.CITP

Working Securely during the COVID-19 Crisis

Almost overnight, the coronavirus pandemic forced personnel at all accounting firms to work remotely 100% of the time. While many firms were already utilizing the cloud, had implemented cloud-enabled applications, or had a structure to support remote workers, many had personnel that had never actually worked remotely and were simply not prepared to do so. In the rush to get those users connected, some firms took shortcuts which could expose the firm to security threats. Since protecting client data is a fiduciary responsibility for firm owners, management should ensure that proper remote work protocols are in place. Following are ten considerations for working securely during this crisis.

Comprehensive Communications. In times of uncertainty, leaders must lead. This includes transparency in communications with both clients and firm personnel. With all firm personnel moving to working remotely, it is important for firm leaders to communicate that work will continue as scheduled and that the security and confidentiality of client information remains paramount. Owners should communicate to clients and staff how client information will be protected through the use of secure email/portal solutions and explain the processes for delivering documents through the mail or by using secure onsite protocols.

Secure Video Calls. Communicating face to face via video conferencing can help firm personnel deal with imposed isolation by adding familiarity to interactions. If your firm utilizes Office365, Microsoft Teams is an effective tool for video conferencing as well as messaging and on-screen document sharing (as long as everyone has access to a video camera, microphones, and speakers). At the start of the pandemic, many firms jumped on the free version of Zoom without training, exposing security concerns. Firms can make Zoom more secure by requiring a password, mandating that all participants be first sent to a virtual lobby to then be admitted by



the administrator/host, and only allowing the administrator/host's screen to be shown. Personnel should also be reminded not to share screenshots of video calls on social media as the meeting access name can be exposed. It is also important to only run application updates directly from the vendor websites as hackers are sending out fake software update links.

Secure Logins. Many firms continue to utilize antiquated rules on passwords (8 alphanumeric/special characters) which today's hacker tools can compromise. Firms should transition to strong, complex passwords of at least 12 characters or "pass phrases" (consisting of at least three random words) and also require multi-factor authentication to connect. Passwords should not be utilized on more than one account, so using a password wallet such as LastPass, DashLane, or Keeper will help you keep track of your passwords and keep them secure.

Secure Workstation. Employees should work only on firm-assigned equipment. However, we have heard of many personnel using their personal home computers. This should not be allowed if any other family members also utilize that device, and definitely not if it is still running Windows 7. Firms should verify any remote computers have automatic updates configured, particularly for the Windows operating system and antivirus/malware.

Secure Workspace Setup. The home workspace should be setup in a private area where client discussions and

onscreen information can be kept confidential. Ideally, all work should be done only onscreen with all data and applications residing in the cloud or remotely accessed on the firm's servers. If a local printer is used, all print-outs containing client information should be shredded.

Secure Connection. Firm personnel should utilize a virtual private network (VPN) when connecting to firm resources through the internet and preferably physically connected by Ethernet cable directly to the router in the house or digital cellular network if the speed is adequate. If WiFi access must be utilized, the firm should verify that the employee's WiFi router is secure by first updating the firmware on the router and changing the password. It is also advisable to segment business access from family/guest use and from "IoT" devices such as smart speakers, doorbells, video cameras, etc.

Secure File Access. All firm personnel should be trained on educating clients to utilize the firm's secure email, portal, and digital signature solutions for the secure transfer of source documents and firms should disallow the use of USB flash drives for any file transfer (preferably by disabling the USB ports on firm-owned devices).

Security Policies. Firms should immediately review internal policies to ensure that they have been updated to address remote work requirements including client confidentiality, proper equipment configuration, secure network accessibility, team and client communications, as well as hours of availability when at home.

Security Awareness/Training. Information security is an ever-moving, rapidly evolving threat, particularly in an unfamiliar "remote" environment. So, it is imperative that firms keep personnel abreast of current threats by having the IT Team do security briefings. Employees

should be educated on social engineering practices that hackers are using to get personnel to compromise the firm's security as well as to be aware of increasingly sophisticated phishing and ransomware scams. Red flag suspicions should be raised whenever a message seems out of character, "urgently" requests financial or personal information, or asks the recipient to click on a link or go to a website.

COVID-19 Scams. Personnel should also be made aware of hackers utilizing COVID-19 schemes to trick staff members into downloading malware through "FREE" tools and resources for government loans, stimulus payments, and summaries of regulations. Accountants should only go to trusted, verified websites for such information and should not download data through email links.

While no one can predict the long-term impact of the pandemic, accounting firms are finding that remote work capabilities are a highly viable solution that may well become the new norm.

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Financial Institution Loan Modifications for Borrowers Affected by Coronavirus

On March 22, 2020, a group of government agencies issued a joint statement providing guidance to financial institutions working with borrowers on loan modifications necessary because of the coronavirus. The agencies include the Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, and State Banking Regulators. The statement is in response to temporary business disruptions and challenges resulting from the coronavirus and was based on consultation with the FASB. The agencies are encouraging financial institutions to work with borrowers who are struggling to meet their payment obligations. The following provisions of the statement have accounting implications for all borrowers.

Accounting for Loan Modifications

The interagency statement provides that modifications of loan terms as a result of COVID-19 do not automatically result in their being accounted for as troubled debt restructurings (TDRs). Under U.S. GAAP, ASC 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, a debt restructuring is considered a troubled debt restructuring if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants the debtor a concession it would not otherwise consider.

The agencies confirmed with FASB staff that short-term modifications made in good faith to borrowers experiencing short-term operational or financial problems as a result of COVID-19 who were current on their loans prior to the relief will not be considered (or accounted for as) TDRs. This includes short-term (e.g., six months) modifications from payment deferrals, extensions of repayment terms, fee waivers, or other payment delays that are insignificant (relative to the amount due from the borrower or to the original maturity/duration of the debt, based on guidance in ASC 310-40 about insignificance). Borrowers are considered current if they are less than 30 days past due on their contractual payments at the time a modification program is implemented.

In addition, loan modification or deferral programs mandated by a federal or state government in response to COVID-19, such as financial institutions being required to suspend mortgage payments for a period of time, would not be in the scope of ASC 310-40.

Other Provisions for Financial Institutions

The statement also includes provisions relating to exceptions for financial institutions' regulatory reporting of past due loans and loans being reported as nonaccrual assets as a result of COVID-19.

The CARES Act permits financial institutions not to classify a COVID-19-related loan modification as a TDR if it was made between March 1, 2020, and the earlier of December 31, 2020, or 60 days after the end of the public health emergency, and if the underlying loan was not more than 30 days past due as of December 31, 2019.



FASB Issues Standard to Facilitate Effects of Reference Rate Reform

ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, was issued in March 2020 and provides temporary guidance that companies may elect to apply as they transition from expiring reference rates, including LIBOR, to new benchmark rates.

Regulators around the world implemented reference rate reform initiatives to replace certain rates (including LIBOR) and identify other reference rates that are more transaction-based and observable, and as a result are less prone to manipulation. This ASU applies only to contracts, instruments, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued.

The ASU may be applied at any time after March 12, 2020, but no later than December 31, 2022, which is the rate reform transition period. There are several nuances of how and when to apply the different amendments for interim periods, contract modification dates, and hedging relationship dates.

The FASB's intention is to reduce transition costs and simplify accounting for modifications to contracts and

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financial arrangements that reference rates being phased out. The ASU provides optional expedients and exceptions. Under existing GAAP, modifications would have to be assessed and remeasured to determine whether they would be accounted for as continuation of the existing contract or as if they were a new contract.

However, the ASU includes these optional expedients:

- Allow eligible contracts that are modified—including debt, leases, derivatives, and others—and meet qualifying criteria to be accounted for as a continuation of those contracts.
- Permit companies to preserve their hedge accounting relationships during the transition period upon certain changes in critical hedge terms due to reference rate reform through several exceptions and optional expedients.

- Enable companies to make a one-time election to transfer or sell held-to-maturity debt securities that are affected by rate reform.

Practical Consideration:

The FASB has provided an overview of the new guidance in an “In Focus” available on its website at www.fasb.org/cs/Satellite?cid=1176173288156&pagename=FASB%2FDocument_C%2FDocumentPage.

